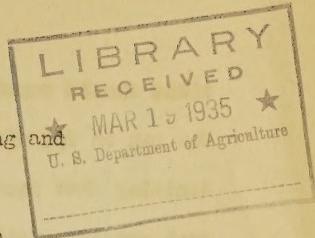


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FOREIGN COTTON PRODUCTION

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The attention now being given to foreign competition in cotton production is decidedly encouraging from the standpoint of assuring success in the development of programs for the benefit of the American cotton grower. Production control programs for one commodity or another have been put into effect at various times in many parts of the world. Some of these programs have been unsuccessful because of expansion in uncontrolled areas, and the failures have been cited as indications of the final outcome of programs to control agricultural production in the United States. We must recognize that our programs for the control of cotton production could be carried to such extremes that our position in world markets would be destroyed, but we must recognize also that undue fear of dire consequences would prevent action of any kind. In this age of iron and steel we certainly do not want to attempt to charge windmills; neither do we want to revert to another old-time practice and run from ghosts. What we need is a thorough appraisal of the facts with respect to present and prospective foreign competition. Our cotton adjustment programs should be formulated in the light of such information. Then as conditions change or unexpected developments occur, appropriate changes should be made in our programs.

In a word our primary concern must be to adjust the adjustment programs. The facts of foreign competition as well as of other condi-

tions should furnish the guides for that adjustment. The cotton growers, the men in the field, must take a large share of the responsibility of deciding what should be done. It is not enough to say that the Government should consider these matters and develop the programs accordingly. Any program involves some risks, whether it be a program of action or of inaction. Since risks are involved, those vitally affected by the results should take an active part in making decisions.

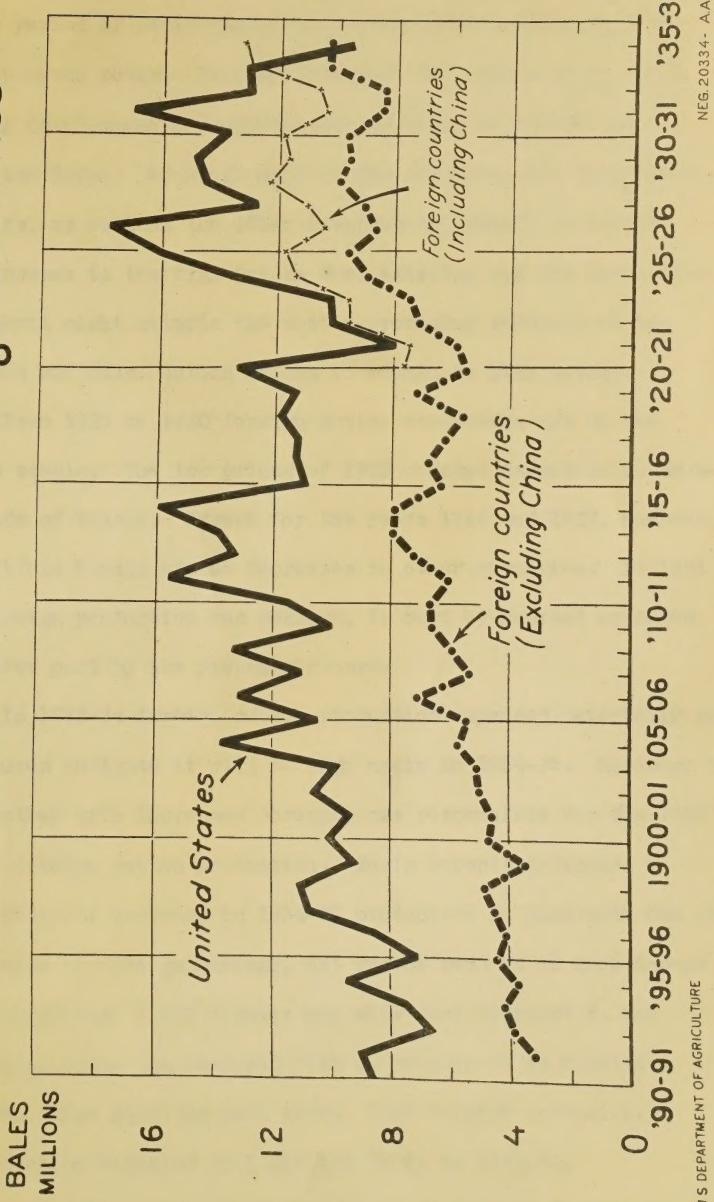
The general position of the United States and foreign countries in cotton production for the period 1890 to date is shown in Figure 1. Foreign production, including that of China, is shown only for the period 1920 to date, since Chinese production figures for years prior to 1920 are very unreliable and are probably misleading. In considering foreign cotton production as a whole over this period, it is well to concentrate attention on the following four points:

1. Over a period of years foreign cotton production has had a gradual upward trend. This is most clearly discernible for the period 1890 to 1914. This upward trend came with the development of foreign agricultural areas. However, the increase of foreign cotton production was more than offset by the concomitant increase in world demand. The United States was therefore able to dispose of increasing quantities of cotton to domestic consumers and to increase its exports of cotton between 1890 and 1914 despite the increasing production of cotton abroad.

2. From 1921 to 1925 foreign cotton production increased sharply. In part this increase appears to have been a recovery to pre-war peaks of production but it came with, and was undoubtedly engendered by, the unusually high cotton prices that resulted from

Cotton Production: U.S. and Foreign Countries

FIGURE 1



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the boll weevil damage and short cotton crops in the United States. During this period of rapid expansion foreign cotton production rose beyond the pre-war peaks. In many countries the expansion was characterized by developmental projects such as those of Uganda and Anglo-Egyptian Sudan. Although many of the projects were subsidized, the subsidies, as well as the other investments, should be looked upon as responses to the high prices then existing and the fears that the boll weevil might cripple the cotton-producing industry of the United States and cause cotton prices to remain at high levels.

3. From 1925 to 1930 foreign cotton production was on the whole quite stable. The low prices of 1926 checked expansion in countries outside of Russia. Except for the years 1926 and 1927, however, expansion within Russia offset decreases in other countries. In 1931 and 1932 foreign production was reduced, in part by reduced acreages but in greater part by low yields per acre.

4. In 1933-34 foreign cotton production expanded materially and present figures indicate it will be high again in 1934-35. Recovery in yields, together with increased acreage, was responsible for the 1933 increase in foreign cotton production. Early reports indicated a moderate additional increase in 1934-35 production in line with the apparent increase in foreign acreage, but recent reports of crop damage in India suggest that final figures may show some decrease in the 1934-35 foreign crop. As compared with an average of 12 million bales for the three previous peak years, 1928 to 1930 inclusive, foreign production totalled 13.1 million bales in 1933-34.

Foreign cotton acreage responds to price changes in much the

same way that cotton acreage in the United States responded prior to the period of production control. An exception must be made in the case of Russia, however, because in that country cotton acreage recovered from the low level to which it had fallen in the early 1920's despite the declining trend of prices, and it was further increased under the five-year plan without any direct relationship to the trend of prices.

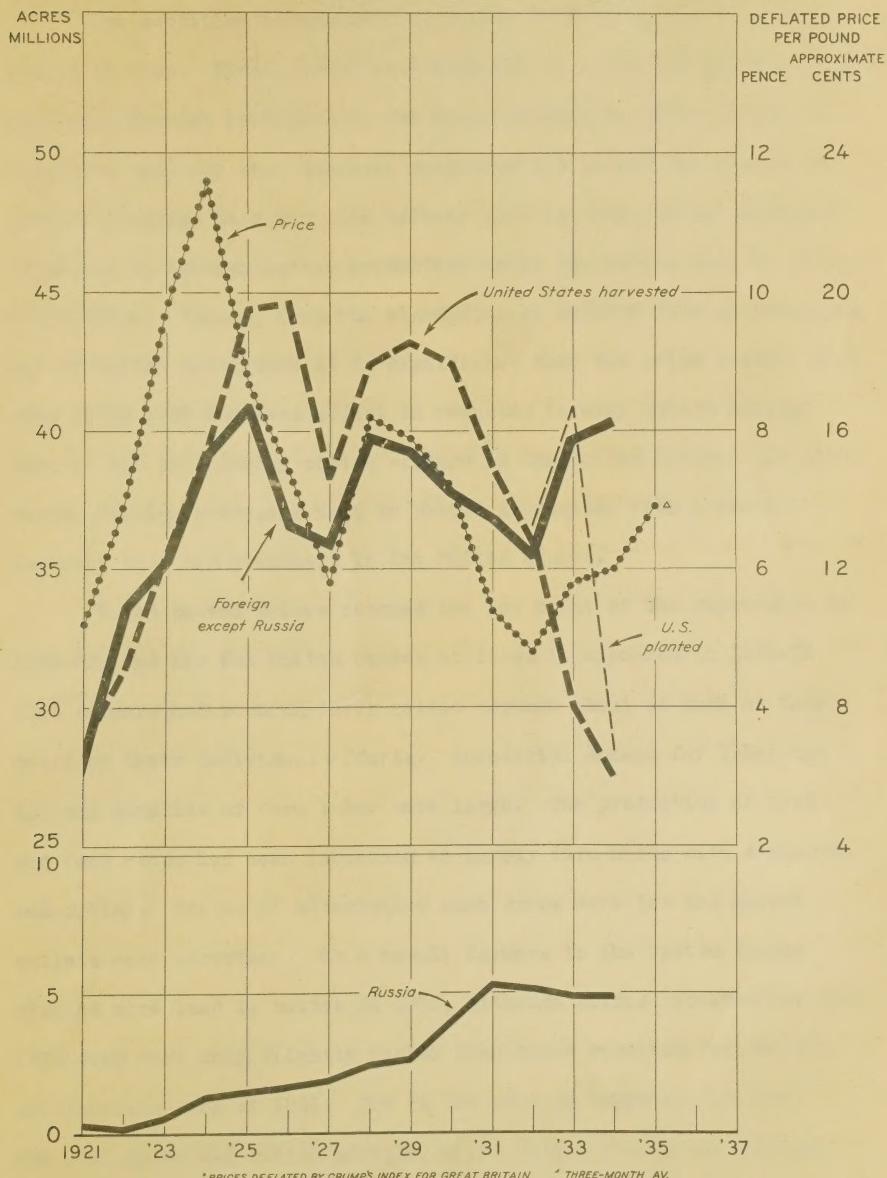
Figure 2 shows the deflated Liverpool prices of American cotton for the cotton year previous to that for which the acreage is shown. Prices of American cotton dominate world markets but the gold value of foreign currencies has changed greatly in recent years and more of the foreign cotton-producing countries have had their currencies in line with the gold value of the British pound than with that of the American dollar. Prices in terms of British pence may therefore be taken as indicating the price levels to which foreign producers react with greater assurance than prices in terms of United States currency.

Following years of high prices, foreign cotton producers as a group tend to increase their acreage. The greatest increase in foreign cotton acreage came, as did that in the United States, from 1921 to 1925, when cotton prices were extremely high. Between 1921 and 1924 foreign cotton acreage, outside of Russia, about equaled the United States acreage; then cotton acreage in the United States forged ahead. Both in the United States and in foreign countries, cotton acreage declined as prices fell after the period of scarcity and rose again after 1927. From 1929 to 1932 cotton acreage responded to declining prices but the response was greater in the United States than in foreign countries, and in the latter year cotton acreage in the United States was again approximately equal to that in foreign countries, outside of

FIGURE 2

COTTON ACREAGE IN UNITED STATES AND FOREIGN COUNTRIES AND PRICES*
OF AMERICAN COTTON IN LIVERPOOL FOR PREVIOUS CROP YEAR

1933-34=100 (OR 70 PERCENT OF 1926 AVERAGE)



*PRICES DEFLATED BY CRUMP'S INDEX FOR GREAT BRITAIN

*THREE-MONTH AV.

Russia.

The condition illustrated in Figure 2 is important from two points of view. First, from the standpoint of price influence it would seem that foreign producers on the whole respond to cotton prices in about the same way that domestic producers did before the production control programs were put into effect; that is, high prices encourage expansion in foreign cotton production while low prices tend to bring a reduction. Second, from the standpoint of driving foreign producers out of cotton production it is significant that the price decline that came after 1928 had less effect in reducing foreign cotton acreage than it did in reducing cotton acreage in the United States. In other words, foreign producers held to cotton production with a greater tenacity than did producers in the United States.

World cotton prices reached the low point of the depression in 1931-32, and for the United States at least it appeared in 1932-33 that farmers had reduced their cotton acreage about as much as they could by their individual efforts. Industrial demand for labor was low and supplies of farm labor were large. The production of food and feed crops had been increased to supply farm needs with a minimum cash outlay. Prices of alternative cash crops were low and market outlets were uncertain. As a result farmers in the United States planted more land to cotton in 1933, although prices received for the 1932 crop were only slightly higher than those received for the 17 million-bale crop of 1931. Due to the plow-up campaign, however, the 1933 harvested cotton acreage in the United States was reduced. Foreign cotton acreage rose in 1933 by nearly the same amount as did

the United States planted acreage. There is nothing to indicate that the 1933 plow-up campaign had any material effect on the 1933 planted acreage in the United States or foreign countries.

Reports on foreign cotton acreage in 1934-35 are not complete, but those now available indicate that there has been a further increase corresponding to the higher prices of 1933-34. If the full 1933 cotton crop of the United States had been permitted to reach maturity, it is obvious that prices would have been depressed and it is probable that foreign cotton acreage would have been reduced rather than slightly increased in 1934-35. It is to this extent that the cotton adjustment programs of the United States may be said to be encouraging cotton production abroad. It is this tendency that needs to be appraised in connection with our future adjustment programs.

Consideration is being given to the possibility of securing a world cotton control agreement. If such agreement could be secured, it would eliminate many of the fears that arise in connection with our cotton control programs. If such agreement cannot be obtained, this country will continue to be faced with a problem of accepting low prices or of encouraging, to some extent at least, the expansion of foreign cotton acreage. The decision as to which of these courses will be preferable should be based upon a quantitative analysis of cotton prices and acreage responses. If foreign expansion is moderate it may pay American producers to accept it rather than to permit prices to fall to levels that will entirely prevent it, but if foreign expansion should take place so rapidly and in sufficient degree as to offset the reduction in the United States, loss rather than gain would result from our reduction programs. Of course in this connection

we must also guard against a gradual but persistent increase in foreign cotton production that would tend to paralyze our export trade in ever increasing degrees. A survey of foreign acreage trends is suggestive of the answer but it is impossible to give a final and conclusive answer at present.

Total foreign cotton acreage was almost constant from 1928 to 1931. The increases in Russia offset the decreases in India, as shown in Figure 3. In 1932-33 there was a moderate decrease in total foreign cotton acreage, accounted for largely by decreases in India and Egypt, but in 1933-34 total foreign cotton acreage rose to a new peak and apparently there has been a slight further increase in 1934-35. However, complete figures for 1934-35 are not yet available. Of the total foreign cotton acreage India now has approximately one-half. The Indian acreage as reported has shown no tendency to rise in the past two years. Obviously India can return to its previous level of cotton acreage and may be able to expand beyond that point. It should be kept in mind, nevertheless, that India's previous peak of cotton acreage was associated with high cotton prices. It is doubtful that India's cotton acreage will surpass that point unless prices again become high.

Of the remaining half of foreign cotton acreage, roughly one-fifth is in Russia. The expansion of Russian cotton acreage, for the time being at least, ended in 1931. During the expansion period acreage was planted in sections not formerly in cotton production and yields fell rapidly. New developmental programs may be undertaken in Russia but it is now clear that Russia cannot expand its production

as easily as was assumed at one time. Indeed we may well question whether Russia will find it expedient to increase its cotton production sufficiently to care for its increasing cotton requirements.

Figure 4 shows production in the five outstanding foreign cotton-producing countries and in all other countries combined. It will be noted that production in India is somewhat greater than that in Russia and Egypt and that production in China is now estimated at about the equivalent of that in Brazil and all other countries taken together. For India and China, the two largest foreign cotton-producing countries, it is well to consider both the commercial crops and the production estimates. Both countries have home spinning and weaving industries of importance and parts of their crops, therefore, do not enter commercial channels. In the case of India, however, the commercial crop figures calculated from consumption, exports, and changes in stocks leave considerable doubt as to the validity of recent production estimates except in 1931, when the yield per acre was very low. If the commercial crop figures are to be our guide, low cotton prices have had very little effect in decreasing India's cotton production since 1928.

In China the decline in the value of silver more than offset the declines in world gold prices and while business in other countries was suffering from price deflation, business in China was stimulated by stable or rising prices. Mill consumption of cotton in China has been increasing and the larger cotton crops have not increased Chinese cotton exports nor reduced imports of American cotton. It will be noted that Chinese cotton production started upward

FIGURE 3
COTTON ACREAGE IN FOREIGN COUNTRIES, 1921-1934

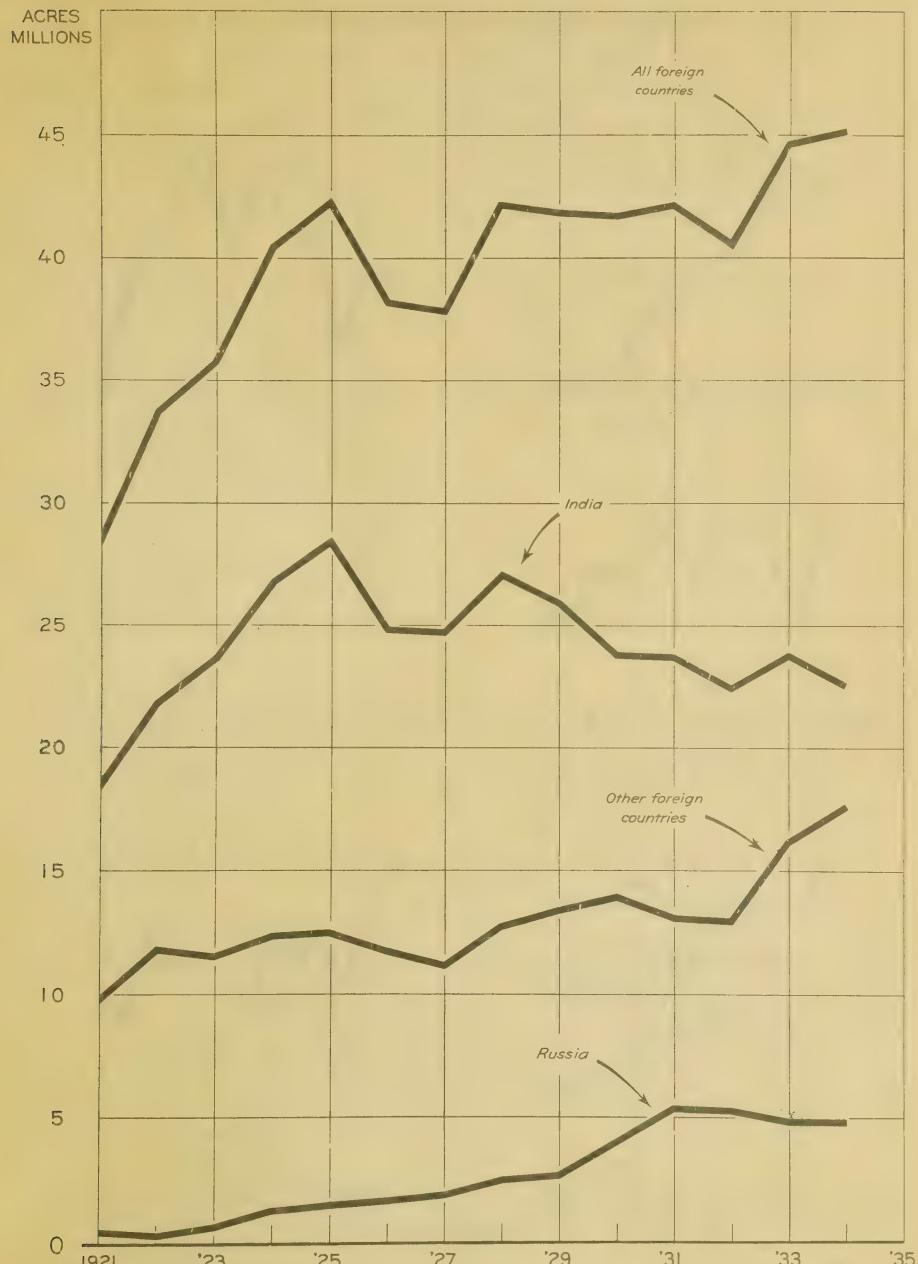
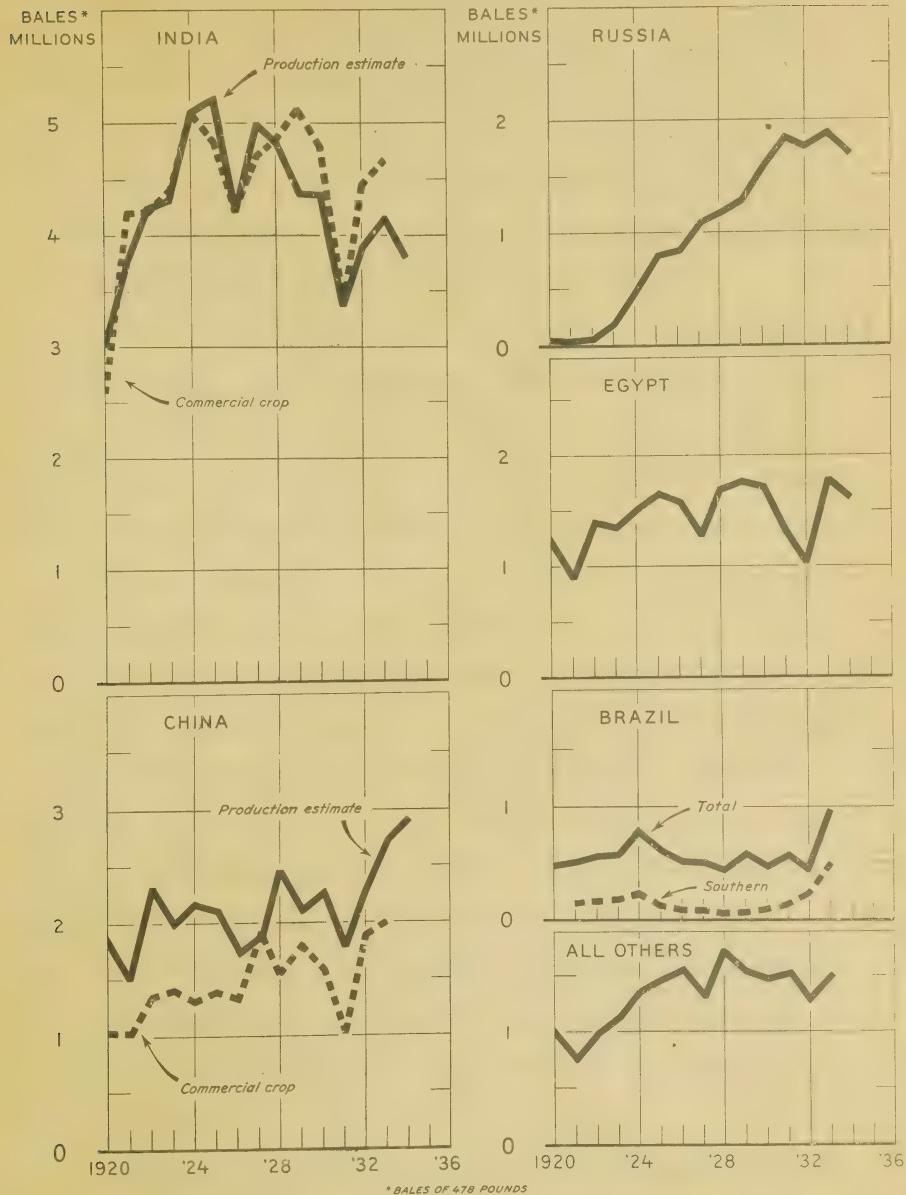


FIGURE 4
COTTON PRODUCTION IN FOREIGN COUNTRIES



in 1932 and apparently little of the increase to date can be attributed to the reduction programs in the United States. The future trend of cotton production in China may be influenced to an extent by the cotton programs adopted by the United States, but if our programs are of a moderate type it is probable that monetary conditions and the course of industrial development will have a dominating influence on the trend of cotton production in China over the next few years.

The trend of cotton production in Russia is similar to the trend in cotton acreage. Most of the increase since 1922 has been in the nature of a recovery, as seen by the fact that Russia's production totaled one and one-half million bales in the year 1915-16. Attempts of the Russian Government to increase its cotton production by improving yields per acre do not constitute a problem of major importance from the standpoint of our cotton programs.

The extent to which Egyptian cotton production can be increased appears to be quite definitely limited unless prices rise sufficiently to warrant large investments and large importations of foodstuffs. Production was reduced in 1921, 1927, 1931, and 1932 by governmental programs of production control, together with low cotton prices. In November 1932 the Egyptian Government issued a decree by which it relaxed its control and in 1933 production recovered. The crops of 1933-34 and 1934-35 appear to be about normal for an uncontrolled period and do not suggest any marked response to the control programs of this country.

The increase in cotton production in Brazil is the development that is attracting most attention at the present time. Brazil has long been recognized as having vast areas of potential cotton-producing land. The possibility that the present expansion represents the begin-

ning of an enormous developmental program for the production of cotton in that country is causing grave concern to many in the United States. The shipment of ginning machinery from this country to Brazil is also attracting attention. Most of the expansion is occurring in southern Brazil and in Sao Paulo, but some expansion is occurring in northeastern Brazil also. In 1932 the expansion in southern Brazil was offset by a reduction in acreage and low yields in the northeastern part of the country. An increase for 1934-35 is reported for the crop of northeastern Brazil but estimates are not yet available for 1934-35 production in southern Brazil. It is reported that seed distributions have been larger this year than in former years and a larger amount of gin machinery is being shipped to Brazil. Offsetting these indications of expanded cotton production to some degree are reports that gin inspection laws and seed distribution laws are being enforced more vigorously than in previous years.

Behind the present expansion of cotton production in Brazil are low coffee prices and depreciation of the currency. The latter factor has helped to make cotton prices appear favorable to growers. Low coffee prices are said to have made additional labor available for cotton production. Apparently the present increase in cotton acreage is confined to the older and more developed agricultural areas. There is no indication as yet of any vast migration into the newer areas and the bringing of these newer lands into cotton production. If cotton prices should become very high migration of laborers and the breaking up of new lands might be stimulated. If this should occur and difficulties from plant diseases and insect pests should be avoided,

Brazil might get started on the long anticipated expansion in cotton production. Such developments could hardly be said to be under way as yet. At present it seems reasonable to anticipate a continued upward trend in Brazilian cotton production. From information available to date, however, it appears probable that the expansion will be moderate. Nevertheless the development in Brazil warrants careful study and constant attention.

Cotton production in other foreign countries taken as a group had about the same trends as those for all foreign countries combined. In 1933-34 production in these countries increased, and probably a further increase occurred in 1934-35. Out of a total of eight of these countries reporting acreage, this year, all but one -- Mexico -- reported an increase. Of the six that have reported production, four reported increases. Although high cotton prices would seem to be required to encourage costly expansion projects, there will be a tendency for cotton acreage to expand in many minor countries so long as cotton prices are favorable in comparison with prices of other agricultural products.

In conclusion it can be said that the 1933-34 increase in foreign cotton production appears not to have been influenced materially by the 1933 plow-up campaign, but to have been due to other factors. Foreign production in 1934-35, however, is no doubt larger than it would have been if control measures had not been undertaken in this country. Precisely how much larger foreign production is than it would have been without our control programs is probably not important at present. Clearly the difference is not equal to the reduction in the crops of this country. It can be concluded that the world cotton

surplus of all kinds is not so large as it would have been without production control in the United States.

You know the decision to continue the production control programs in 1935. By their vote on the Bankhead program and other evidences, cotton farmers and southern agricultural leaders have indicated that they did not consider it wise to relax the production control program in 1935. In other words, it was concluded that the risk of an unrestricted crop in this country was greater than the risk of any expansion in foreign production that might result from our control program in the coming year. By the time subsequent programs are to be formulated, many of the confusing situations concerning foreign competition should be eliminated or the developments should have reached such stage that the outcome can be anticipated with greater assurance than it can at present. If in a year from now, it appears that foreign competition constitutes a real menace to control programs of the type that have been in effect so far, we must be ready to change our programs. If the expansion in foreign cotton production proves to be abortive or if an international cotton control agreement can be put into effect, then we can chart our course in adjusting cotton supplies to world market requirements with a considerable degree of assurance. In the current year we should make an intense study of the facts of foreign competition.